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DEVELOPING INDUSTRIAL SECTOR IN NIGERIA AND SME PERFORMANCE

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Abstract
The dwindling effect of industries on the growth of the Nigerian economy and SME performance prompted this study. Data was ascertained from Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics Publication. The Paper employed the OLS Technique to capture the effect of Small and Medium enterprise on Industrial growth. The findings of OLS (Ordinary Least Square) test revealed that all the variables that mirrored Small and Medium Enterprise in Nigeria were significantly impacting on Industrial growth, only credit to Small and Medium enterprise and lending rate had same expectations as the former was sharing a positive relationship with Industrial growth and latter a negative relationship with Industrial growth. Therefore the paper concludes that the role of SME has dominated worldwide economic thinking with evident researches and surveys showing the impact of SMES and a driver of Growth.

Keywords*: Industrial Growth, SME.*

1.0 INTRODUCTION

Globally, SME world over, holds a very strong sway on the growth composition of an economy. This is premised on the contributing over 75% of industrial sector output, and easily dominates vis-a-vis the employment creating abilities it possesses, in comparison with large scale enterprises. According to Ikom and Chukwu (2018) it constitutes the largest proportion of businesses all over the world and therefore, drives the world financial system and the prime mover to achieving industrialization, for emerging economies. They further opined that despite the small size they are the most important business because its combinational output far outweighs that of larger businesses. A survey carried out by the OECD, revealed that SMEs make up 96 to 99% of businesses in her member countries, and remains the largest employer of labor more than the large firms (Ezeaku, Anidiobu & Okolie, 2017).

In Nigeria, SMEs contribute 48% of national GDP, account for 96% of businesses and 84% of employment (PwC, 2017). Nigeria Bureau of Statistics (NBS), stated that SMEs have contributed about 48% of the nation's GDP over 5 years. The NBS as well in conjunction with SMEDAN reported that 80 percent of jobs, per capita income, increase value addition to raw materials supply, improve export earnings, enhance capacity utilization in key industries and unlock economic expansion and GDP growth is strategically positioned on the shoulders of the SMEs (PwC, 2018).

Akoja and Hasret noted that SMEs suites the endowment factor of the Nigerian economy. This is because they promote the use of local raw materials, low technologies, light industries that employ greater number

of persons per unit of capital employed than Large Scale Enterprises (LSEs), serve as entrepreneurial development centers and can facilitate balanced development since they can be operated at remote and rural areas giving their short gestation period.

Udo (2014) opined that Nigeria in a bid to achieve industrialization, had over the years, initiated different industrial policies/industrialization strategies such as the import substitution approach, export promotion strategy, and foreign private investment-led industrialization as well as policy reform measures like indigenization policy, structural adjustment program, etc. With industrial investments such as the Ajaokuta steel mill company, steel rolling mills at Warri, Kaduna and Oshogbo, aluminum smelter plant at Ikot Abasi, crude oil refineries at Port Harcourt and Kaduna, petrochemical, and fertilizer factories at Port Harcourt, paper industry at Oku Iboku, cement industries at Calabar and Nkalagu, machine tools company, sugar plants and marble industries. However despite all the efforts of the government, at least in principle, to grow her industrial sector, the level of industrial growth in Nigeria is still very insignificant (Udo, 2014).

1.2 STATEMENT OF THE PROBLEM

According to World Bank (2020) emerging markets, most formal jobs are generated by Small and Medium Enterprises, which create 7 out of 10 jobs. In Nigeria, despite the lead role of Small and Medium Scale Enterprises, they still encounter diverse problems ranging from energy shortage, inadequacy of capital, incompetency, lack of management skills and inadequate information, tax burden and corruption, etc. These mitigating factors have hampered the SMEs contribution to the Industrial sector development. Moreso, it has been quite disturbing that inspite of different measures aimed at restoring the SMEs, their performance remains below par in Nigeria. This observation has necessitated this study in order determine empirically the existing relationship between Small and Medium Scale Enterprises and industrial growth in Nigeria.

The general objective of this paper is to examine small and medium scale enterprise and industrial growth in Nigeria. However it specifically seeks to ascertain the impact of credit to SME, small scale enterprise contribution to GDP, lending rate, and small scale enterprise contribution to export on industrial growth in Nigeria. The essential question that emanates from the research objectives is: How does SMEs affects industrial sector in Nigeria. Scope will cover a 24 year period from 1995-2018.

LITERATURE REVIEW

Small and Medium Scale Enterprises (SMEs)

The contribution of SMEs is seen as an integral developmental part of any economy as its features garner capacity for employment, local technology improvement, diversification of output, enhancement of local entrepreneurs and onward synergy with large scale industries. (CBN, 2018).

There is no generally accepted definition of SME as a concept. Its definition depends on a country's perception and within sectors in the country. However, metrics usually used in SME definition are the strength of employees, fixed assets or income. SMEDAN (2017) defined SME looking on the following criteria: small scale enterprises are businesses with ten to forty-nine people with a turnover of five to forty-nine million naira, while a medium scale enterprise has fifty to one hundred and ninety-nine employees with a year turnover of fifty to four hundred and ninety-nine million Naira. However, Khan and Dalu (2015) opinion on SME is that for long it has been a springboard for both industrial and economic growth of nation and they play an important role for employment generation, facilitator of economic recovery and national development. With the surging number, the need to resolve their program, policies, and activities became very crucial and this led to Small and Medium Scale Enterprises Agency of Nigeria (SMEDAN) formation in 2004.

The Nigerian Bank for Commerce and Industry (NBCI) adopted a definition of small business as one with total capital not exceeding N750, 000 excluding cost of land but including working capital. The Nigeria Industrial Development Bank (NIDB) defined small scale enterprise as an enterprise that has investment and working capital not exceeding N750,000, while it defined medium scale business as those operating within the range of N750,000 to N3.0 million.

SMEs Performance

Earlier studies have shown that several factors affect performance in SMEs. The major factor has been shown as lack of capital and financial resources. However, Dia (1996) found that additional capital and finance can be overcome through innovation and creativity. Kamunge, Njeru and Tirimba (2014) also found out that access to commercial credit did not contribute to entrepreneurial success in any significant way. Some researchers argue that small businesses are undercapitalized. Business owners in Africa tend to depend upon their own family savings and access to capital remains a challenge. Most of them cannot meet the requirements for commercial loans, and those who do find such loans expensive. Administrative problems have been cited as a major cause of business failure. Kamunge, et al. (2014) found that poor record keeping and lack of basic business management experience and skills were major contributors. Mugo (2012), explored SMEs performance concluding that access to business information services affected business to a greatly that access to finance affected SMEs because it limited the entrepreneurs' ability to take advantage of opportunity. The study concluded that communication impacted greatly on business bringing together both the supplier and customers, facilitating the transportation of goods and marketing.

Industrial Growth

Industrial growth refers to growth in the industrial sector of a nation's economy. Industrial sector covers a reasonable portion of GDP. It is further divided production, Mining and quarrying, electricity and gas distribution, manufacturing and construction. Nonetheless, several determinants of Industrial Growth exists, which includes:

- **Inflation Rate:** Inflation is an economic situation where there is a general rise in the prices of goods and services, continuously. It can also be defined as 'a continuing rise in prices as measured by an index such as the consumer price index (CBN, 2018). When inflation occurs in a nation, the currency loses its purchasing power.

Essentially, two causes of inflation have been identified:

a. Demand-pull inflation: This is caused by an increase in the conditions of demand. This could be an increase in the ability to buy goods.

b. Cost-push inflation: This emanates from reduction in supply. This may be due to an upsurge in the production cost, a rise in taxation or a decline in quantum of goods produced.

- **Gross Capital Formation:** According to Ugwuegbe and Uruakpa (2013) Capital formation or accumulation refers to the process of amassing or stocking of assets of value, the increase in wealth or the creation of further wealth. Capital formation can be differentiated from savings because accumulation deals with the increase in stock of needed real investments and not all savings are necessarily invested.
- **Capacity Utilization:** Ugwuegbe and Uruakpa (ibd), sees capacity utilization as a percentage of the actual level of output to a sustainable maximum level of output, or capacity. Unsteady energy supply, coupled with insufficient social amenities contribute to decrease in capacity utilization of the SMEs in the industrial sector.
- **Labor Force:** Labor force (economically active population or working population) refers to the population that is willing and able to work, including those actively engaged in the production of goods and services (employed) and those who are unemployed. (Agbodike, Igbokwe-IbetoUmeifekem, 2015).

The labor force of a country as defined by National Bureau of Statistics (NBS) (2018) is a set of people or citizens of a country who are willing and are able to make available at any given point in time their efforts for gainful employment. The total labor force in Nigeria is made up of all persons aged 15-64 years excluding students, home keepers, retired persons and stayat-home to work or not interested.

When the labor force of a country grows with an increasing proportion of youth, employment growth is however inadequate to absorb labor market entrants. As a result, youth are especially affected by unemployment.

Overview of Nigeria's Industrial Sector

The history of industrial development and manufacturing in Nigeria has been marred with a series of policy inconsistencies and distractions attributable to the discovery of oil. From a modest 4.8% in 1960, manufacturing impact to the nation's GDP increased to 7.2% in 1970 and to 7.4% in 1975. In 1980, it

declined to 5.4% but then surged to a record high of 10.7% in 1985. By 1990, manufacturing contributed 8.1% but then dropped to 7.9% in 1992, 6.7% in 1995 and fell further to 6.3% in 1997. As of 2001, it dropped further to 3.4% from 6.2% in 2000. However, it increased to 4.16% in 2011 which is less than what it was in 1960 (CBN, 2011).Lack of funds and an enabling environment for industrialists have denied the nation the capacity to achieve significant industrial growth or industrialization which Nigeria has always hoped and craved for. Considering the enormous importance attached to industrialization and how it impacts on our economy, any problem militating against its achievement should be of interest to us (Ogunbanjo, 2019)

METHODOLOGY

This work adopted the model specified by Ikom and Chukwu (2018) with slight modification. The adopted model has Industrial development as a function of loan to SMEs, lending rate, contribution to GDP and contribution to export. Regression analysis was used to determine the relationship that exists between the variables of study.

The model is functionally specified as;

INDG= *f (CSME, SGDP, SMEX, LEDR)* …… *(1)*

Mathematically the model becomes;

$$\mathbf{INDG= a_0+ a_1CSME + a_2SGDP+ a_3SMEX+ a_4LEDR} \ldots\ldots (2)$$

Equation (2) is transformed to econometric form as;

$$\mathbf{Y= a_0+ a_1X_1 + a_2X_2 + a_3X_3 + a_4X_4 + Ut} \ldots\ldots (3)$$

Or

$$\mathbf{INDG= a_0+ a_1CSME + a_2SGDP+ a_3SMEX+ a_4LEDR + Ut} \ldots\ldots (4)$$

Equation (4) will be expressed in log form in other to standardize the variables;

$$\mathbf{INDG= a_0+ a_1LogCSME + a_2LogSGDP+ a_3SMEX+ a_4LEDR + U_t} \ldots\ldots (4)$$

INDG, SMEX, LEDR were not expressed in log form because they are all in percentages (%)

Where

Y= the endogenous variable

X_1–X_4= explanatory variables

a_0-a_4= parameters to be estimated

Ut= error term

INDG= Industrial growth

CSME= credit to small and medium enterprise

SGDP= small and medium enterprise contribution to gross domestic product

SMEX= Small and medium enterprise contribution to export

LEDR= lending rate

A priori, $a_1 > 0$, $a_2 > 0$, $a_3 > 0$, $a_4 < 0$. However increases in the lending rate, results to a decrease in industrial growth.

ANALYSIS AND DISCUSSION

Unit Root Test

The Augmented Dickey Fuller (ADF) was used to test for unit roots and the following results were obtained.

Table 1: Unit Root Test Results at Level (α = 5%)

Variable	ADF statistics	Critical value (5%)	p-values	Order of integration
INDG	-2.2268	-3.0124	0.0926	Nil
CSME	-0.8230	-3.0049	0.7926	Nil
SGDP	-2.0783	-2.9981	0.2544	Nil
SMEX	-1.2400	-2.9981	0.6387	Nil
LEDR	-1.8572	-2.9981	0.3452	Nil

Source: Author's computation on E-views

The unit root test result above shows that the variables industrial growth (INDG), credit to CSME, share of GDP (SGDP), share of export (SMEX) and lending rate (LEDR) are all non-stationary at level.

Table 2: Unit Root Test Results at Level (α = 5%)

Variable	ADF statistics	Critical value (5%)	p-values	Order of integration
INDG	-4.3472	-3.0299	0.0034	I-(1)
CSME	-7.6575	-3.0049	0.0000	I-(1)
SGDP	-7.7127	-2.9981	0.0000	I-(1)
SMEX	-3.8540	-3.0049	0.0083	I-(1)
LEDR	-6.1800	-3.0049	0.0000	I-(1)

Source: Author's computation on E-views

Industrial growth (INDG), credit to SME, share of GDP (SGDP), share of export (SMEX) and lending rate (LEDR), became stationary at first difference.

Co-Integration Test

The variables having integrated of different others, we test for co-integration, using the Johansson Co-integration test.

The Johansen co-integration test uses two statistics test namely: **the trace test** and **the likelihood eigenvalue test**. The first row in each of the table test the hypotheses of no co-integrating relation, the second row test the hypothesis of one co-integrating relation and so on, against the alternative of full rank of co-integration.

The test result is presented in Table 3 below:

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.893719	103.5806	69.81889	0.0000
At most 1 *	0.690945	54.26390	47.85613	0.0111
At most 2	0.516351	28.43073	29.79707	0.0712
At most 3	0.336818	12.45000	15.49471	0.1366
At most 4	0.143759	3.414468	3.841466	0.0646

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

Using the Trace test of detecting co-integration test, it's indicative that there is presence of two (2) Co-integrating equations in the model; hence there exist a long run relationship in the models.

Error Correction Model (ECM) Estimation

Table 4: Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.261395	0.883757	-0.295777	0.7710
D(CSME)	23.18281	17.60047	1.317170	0.2053
D(SGDP)	-221.3460	151.3673	-1.462311	0.1619
D(SMEX)	-0.282720	0.441300	-0.640654	0.5303
D(LEDR)	-0.428755	0.286914	-1.494369	0.1534
ECM(-1)	-0.700417	0.239789	-2.920966	0.0095

Source: Author's computation on E-views

The error correct (ECM(-1) was negative and significant, implying evidently that there is a significant short run relationship between small and medium scale enterprise and industrial growth in Nigeria. The coefficient of error correction model is (-0.700417). The adjustment speed suggests that about 70.04% of the previous period's disequilibrium in industrial growth is corrected annually by SMEs.

Ordinary Least Square

The results of the ordinary least square are summarized in Table 5 below

Table 5: Ordinary Least Squares Test Result.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	550.0359	136.9116	4.017453	0.0007
CSME	42.63477	11.69292	3.646204	0.0017
SGDP	-401.7794	109.6090	-3.665569	0.0016
SMEX	-0.725959	0.236016	-3.075888	0.0062
LEDR	-0.650889	0.251066	-2.592500	0.0179

R-squared	0.680224	Mean dependent var	12.24833
Adjusted R-squared	0.631429	S.D. dependent var	6.285782
S.E. of regression	4.066717	Akaike info criterion	5.826601
Sum squared resid	314.2256	Schwarz criterion	6.072029
Log likelihood	-64.91921	Hannan-Quinn criter.	5.891713
F-statistic	8.987209	Durbin-Watson stat	1.680910
Prob(F-statistic)	0.000300		

Source: Author's computation on E-views

Fitting in a regression equation from Table 5 above, we have:

INDG= 550.0359 + 42.63477CSME – 401.7794SGDP - 0.7259SMEX – 0.6509LEDR

Interpretation of Regression:

Credit to small and medium enterprise (CSME): Credit to SMEs has a coefficient of 42.63477. This reveals a unit rise in credit to SMEs would result in 42.63477 unit rise in the industrial growth (INDG). This is in agreement with our a priori expectation which states that an increase in any of the explanatory variables is expected to yield a corresponding increase in industrial growth (INDG).

Small and medium enterprise share of GDP (SGDP): This has a negative sign which shows an indirect relationship with INDG. Thus, a rise in SGDP would lead to a decrease in INDG which is not in tandem with our a priori expectation. The coefficient of -401.7794 shows that a unit increase in SGDP will decrease INDG by 401.7794 units. The p-value of 0.0016 indicates that SMEs share of GDP has impacted significantly on industrial development.

Small and medium enterprise share of export (SMEX): The SMEX has a negative sign indicating that as SMEX increases by a percentage; falls by 0.7259%. This doesn't conforms to our a priori expectation.

Lending rate (LEDR): lending rate has a negative coefficient of -0.6509 showing that as the rate to which banks lend SMEs increases by a percent, the industrial sector falls by 0.6509%. This is in agreement with our a priori expectation. The significant impact of lending rate on industrial growth is evident in the p-value (0.0179).

Test for Autocorrelation:

The Durbin – Watson statistics was used in testing for the presence of autocorrelation. From the regression results, the Durbin-Watson value is 1.6809 which is closer to 2 than 0. Therefore, we conclude that there is no autocorrelation in the model.

DISCUSSION AND IMPLICATION OF FINDINGS

The study examined SME and industrial development in Nigeria from 1995-2018. The OLS test conducted revealed that variables that mirrored SMEs in Nigeria were significantly impacting on industrial growth. However, only credit to SME and lending rate had same expectations with our a priori expectations, as the

former was sharing a positive relationship with industrial growth and the latter a negative relationship with industrial growth. Small and medium scale enterprise share of GDP and exports' result weren't in consonance with the a priori expectation as there share a negative relationship with industrial growth. The misalignment of SME share of GDP to the a priori expectation may be as a result of oils domination of Nigeria's export. Also SMEs share of GDP negatively impacted on industrial growth which might be credited to external reason such as poor infrastructure and fixed capital to engineer the industry, as the bulk of her capital feedstock are imported. The intercept was positively coefficient, suggesting that if the exogenous variables were held at a constant (zero), the industrial sector will produce output amounting to 550.0359 units. The error correction model indicated that the model possesses an adjustment speed of 70%, entailing that there will be correction of the previous period disequilibrium annually at a speed of 70%. The model also possessed a high coefficient of determination (R^2) of 68% and adjusted R^2 of 63% showing that about 63% of the variations in industrial growth can be explained by SME in Nigeria. There was no presence of autocorrelation in the model.

CONCLUSION

The world-wide economic thinking has been dominated by the vital SMEs role with evident researches and surveys showing the SMEs impact on the economy and as a driver of growth. However this drive to ascertain its implications have been relatively new and hence its outlook have been narrow, this study had an objective to not just examine the implications of SME on the economy, but rather on how it affects the growth of the industrial sector in Nigeria.

RECOMMENDATIONS

The study recommends for more SME-friendly policies to be implemented by government, as that will help increase SME growth, inorder to boost industrial growth and if sustained will culminate in industrialization. Monetary authorities have to prioritize its credit to SEM, this could be achieved through low interest rate, and via aids and grants. Furthermore reliefs and accessibility to funds and government intervention/concessional is necessary for SMEs.

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